Fraser & Neave Holdings (FNH MK)

Udderly Misunderstood

	BUY (Maintained)
Share Price	RM30.02
Target Price	RM38.70
Upside	28.9%

Highlights

- AgriValley's yield softness reflects herd cycle, not execution, with losses peaking and dairy expansion, self-sufficiency, and margin upside intact.
- Headwinds in Cambodia and Thailand persist, but recovery catalysts, new capacity, and dairy-focused leadership signal long-term potential.
- Maintain BUY as F&N offers bargain valuations and its dairy project is gaining traction. Target price: RM38.70.

Analysis

- **Yield softness likely due to herd cycle, not execution.** We visited Fraser & Neave Holdings (F&N) AgriValley, a 2,726-ha farm (~3,822 football fields) with over 8,000 cows, including over 3,000 milking cows. Reported yield is over 25 litres per cow per day, though management indicated actual yields are higher. This is below the 28 litres/cow/day achieved in 4QFY25, which we attribute to the natural progression of the lactation curve, particularly from the initial batch imported in Apr 25 now moving past peak yield (refer to Figure 1). Subsequent lactation cycles should see enhanced yields, and productivity remains about 50% ahead of its most established competitor.
- **From expansion to optimisation.** For now, there are no immediate plans for further cow imports, following the intake of 2,500 cows each in Apr and Nov 25, as management focuses on stabilising operations. Nonetheless, F&N remains on track to achieve its target of 10,000 milking cows by the end of Phase 1 (2029), with a further 10,000 milking cows targeted by the end of Phase 2 (2032). Meanwhile, mortality rates are reported to be well within acceptable levels, with insurance coverage in place should mortality exceed management's comfort threshold.
- **Driving toward self-sufficiency for cost advantage.** Apart from AgriValley, F&N owns two nearby estates – Ladang Pasir Besar and Ladang Londah – each spanning about 300 hectares for crop cultivation. F&N targets 70-80% feed self-sufficiency over the next few years, which could lower production costs by around 40%. Water requirements are expected to be met internally via multiple reservoirs, while solar generation is being explored as part of a broader push toward operational self-sufficiency. Over time, if achieved, we estimate F&N's milk products could cost over RM1 lower to produce than comparable offerings, supported by higher milk yields, feed self-sufficiency, and scale.

Key Financials

Year to 30 Sep (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	5245.6	5196.6	5208.8	5993.8	6332.8
EBITDA	900.5	1859.2	1760.8	2110.5	2156.8
Operating profit	846.7	896.6	806.3	1012.1	996.3
Net profit (rep./act.)	542.8	508.5	427.2	556.3	588.0
Net profit (adj.)	543.7	517.3	427.2	556.3	588.0
EPS	162.6	401.1	376.7	458.9	476.7
PE	21.1	22.2	26.9	20.7	19.5
P/B	3.2	3.0	2.8	2.6	2.4
EV/EBITDA	13.1	12.6	14.2	11.2	11.1
Dividend yield	2.0	2.1	1.7	2.2	2.4
Net margin	10.4	10.0	8.2	9.3	9.3
Net debt/(cash) to equity	-12.0	-0.9	-2.3	-5.7	-10.8
Interest cover	23.3	25.4	25.0	37.8	62.7
ROE	15.7	13.3	10.5	12.9	12.6
Consensus net profit	n.a	n.a	564	621	689
UOBKH/Consensus (x)	n.a	n.a	0.76	0.90	0.85

Source: F&N, Bloomberg, UOB Kay Hian

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Stock Data

GICS Sector	Consumer Staples
Bloomberg ticker	FNH MK
Shares issued (m)	366.8
Market cap (RMm)	11,010.0
Market cap (US$m)	2,899.2
3-mth avg daily t'over (US$m)	4.0

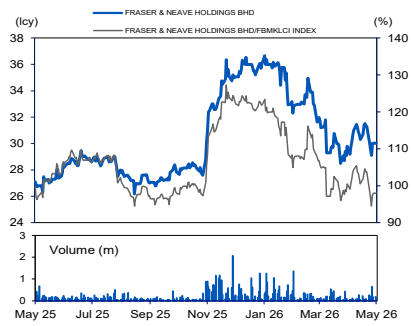
Price Performance (%)

52-week high/low	RM36.66/RM26.18			
1mth	3mth	6mth	1yr	YTD
0.7	(11.5)	4.4	12.9	(14.7)

Major Shareholders

	%
Fraser and Neave Ltd	55.5

Price Chart



Source: Bloomberg

Company Description

Leading beverage player which is principally involved in the manufacture, sale and marketing of soft drinks, dairies, and non-carbonated drinks.

- **Tiny base, more to come.** Fresh milk contributes a low single-digit share of Malaysia revenue, but saw strong growth of 238% yoy in 1HFY26. From Agrivalley, F&N produces four SKUs, mainly Magnolia UHT fresh milk and variants. Distribution has reached about 95% modern trade coverage and is targeting around 90% general trade penetration over the next 2-3 months. F&N plans to launch pasteurised (chilled) milk around June-July, while exports to Singapore have commenced. Over time, we expect expansion into higher value-added dairy segments, including functional dairy, yogurt, butter, and ice cream.
- **Peak losses behind, gradual recovery ahead.** Agrivalley's operational losses is close to -RM17m for 2QFY26. Management indicated losses would peak in 2QFY26 due to the commencement of its milk processing line and limited contribution from the second batch of cows imported in Nov 25, which had yet to enter lactation. As such, we expect losses to taper progressively, with potential operational breakeven by 2027, followed by PBT breakeven in 2028, in line with management guidance. We view this timeline as commendable, given the greenfield nature of the project and the sizeable RM2b capex involved.
- **Dairy DNA at the top.** F&N's outgoing CEO Lim Yew Hoe, with about 30 years at the group and around 12 years as CEO, will retire on 1 Oct 26 and be succeeded by Tarang Gupta. While an external hire, Gupta brings strong FMCG credentials, including about 16 years at FrieslandCampina (Dutch Lady), where he served as MD for Malaysia & Singapore and is currently CEO of the Philippines' operations, with deep expertise in dairy and early life nutrition. In parallel, parent Fraser and Neave Limited has appointed Rahul Colaco – also an ex-Dutch Lady Malaysia MD – as Group CEO. While dairy remains a smaller contributor versus F&N's core F&B operations, these appointments signal clear intent to scale dairy.
- **Cambodia rebuild underway.** Cambodia sales continue to face headwinds from the Thai-Cambodia border conflict, with 1HFY26 sales down 96% yoy and earnings declining 136% (loss-making). Losses are partly driven by start-up costs following the commissioning of its manufacturing plant. With further ramp-up over the next 1-2 quarters, Cambodia will begin producing both condensed and evaporated milk. However, weak sentiment toward existing products suggests a turnaround could take up to two years, potentially supported by a near-term new brand launch.
- **Border conflict continues to weigh.** Revenue contracted sharply by 16.9% yoy due to disruptions to exports to Cambodia amid other export and domestic sales growing. Sales should recover well due to the following factors: a) anticipated 2026 tourism revenue rebound of 11% vs 2025's -1.3%, and b) Cambodia has/will commence its own condensed and evaporated production in Mar and mid-26 respectively. Margins were weighed by lower economies of scale and start-up costs related to the setup of its new manufacturing operations in Cambodia that were partially offset by favourable input costs.
- **Manageable Middle East-related cost pressures.** The Middle East conflict has driven broad-based input inflation and weaker consumer sentiment, with unmitigated costs rising about 8-10%, led by PET resin and energy. While prices have since moderated, the impact has flowed through to Malaysia and Thailand.
- Thailand has responded more aggressively with price hikes, given higher exposure to packaging cost inflation while Malaysia is likely to rationalise trade rebates instead for now.

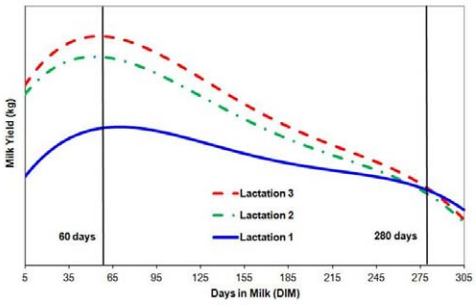
Valuation/Recommendation

- **Maintain BUY and target price of RM38.70.** Despite the immediate headwinds, we believe F&N is on the cusp of a turnaround and further buoyed by its exciting upstream dairy project kicking in. For a large-cap consumer staple, F&N continues to trade at bargain valuations. Our target price is based on a DCF implying 25.3x FY27F PE, which is slightly above its seven-year mean of 24.4x.

Earnings Revision/Risk

- No changes to earnings. Key downside risks are spiralling commodities prices and USD/RM forex rates.

Typical Holstein Lactation Curves and Measure of Lactation Persistency



Source: Lactanet

Key Assumptions

	2026F	2027F	2028F
Sales (RMm)	5,209	5,994	6,333
Malaysia – ex dairy (% yoy)	-2.5	0.0	0.0
Dairy (% yoy)	n/a	155	25
Dairies Thailand (% yoy)	-16.0	5.0	3.0
EBIT	806	1012	996
Margin (%)	12.2	13.6	12.4

Source: UOB Kay Hian

Environmental, Social, Governance (ESG)

Environmental
- Emissions management. Reduced solid waste intensity ratio by 62% from 2017.
Social
- Wellbeing. Lowered the amount of sugar contained per ml in all its beverages by 59% since 2004. - Diversity & inclusion. Fosters a diverse and inclusive work environment, ensuring that all patients and employees are treated with respect and dignity.
Governance
- Board balance and composition. Six board members are independent directors, amounting to 55% of the board members.

Source: F&N, UOB Kay Hian

Profit & Loss

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Net turnover	5197	5209	5994	6333
EBITDA	1859	1761	2110	2157
Deprec. & amort.	137	151	172	199
EBIT	897	806	1012	996
Associate contributions	-1	0	0	0
Net interest income/(expense)	-11	-15	-18	-13
Pre-tax profit	697	731	617	772
Tax	-153	-216	-183	-208
Minorities	-2	-6	-6	-7
Net profit	508	427	556	588
Net profit (adj.)	517	427	556	588

Balance Sheet

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Fixed assets	1,728	2,221	2,449	2,475
Other LT assets	1,014	1,034	1,021	1,006
Cash/ST investment	1135	626	586	542
Other current assets	1,598	1,733	1,701	1,958
Total assets	5,474	5,614	5,756	5,981
ST debt	114	254	204	104
Other current liabilities	996	919	938	1,071
LT debt	592	338	288	188
Other LT liabilities	186	224	223	222
Shareholders' equity	3,576	3,863	4,094	4,393
Minority interest	11	16	10	2
Total liabilities & equity	5,474	5,614	5,756	5,981

Cash Flow

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Operating	733	604	638	624
Pre-tax profit	697	731	617	772
Tax	-153	-216	-183	-208
Deprec. & amort.	137	151	172	199
Working capital changes	11	-147	51	-124
Other operating cashflows	40	85	-19	-14
Investing	-254	-717	-382	-212
Capex (growth)	-258	-737	-400	-225
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	4	20	18	13
Financing	-365	-405	-297	-456
Dividend payments	-294	-231	-197	-256
Issue of shares	0	1	2	3
Loan repayment	0	-114	-100	-200
Others/interest paid	-71	-59	0	0
Net cash inflow (outflow)	114	-517	-41	-44
Beginning cash & cash equivalent	1032	1135	626	585
Changes due to forex impact	-10	8	0	0
Ending cash & cash equivalent	1135	626	585	540

Key Metrics

Year to 30 Sep (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	16.1	17.3	15.5	16.9
Pre-tax margin	13.3	14.2	11.8	12.9
Net marginc	10.4	10.0	8.2	9.3
ROA	10.3	9.2	7.5	9.5
ROE	15.7	13.3	10.5	12.9
Growth				
Turnover	4.9	-0.9	0.2	15.1
EBITDA	7.3	5.9	-10.1	25.5
Pre-tax profit	24.5	6.0	-16.6	25.2
Net profit	-6.3	-16.0	30.2	5.7
Net profit (adj.)	-4.9	-17.4	30.2	5.7
EPS	-4.9	-17.4	30.2	5.7
Leverage				
Debt to total capital	12.9	10.5	8.5	4.9
Debt to equity	19.7	15.3	12.0	6.6
Net debt/(cash) to equity	-12.0	-0.9	-2.3	-5.7
Interest cover	23.3	25.4	25.0	37.8

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